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Kamlesh Bagmar
kamleshbagmar@plindia.com
+91-22-66322237

Amit Khimesra
amitkhimesra@plindia.com
+91-22-66322244

Rating	BUY
Price	Rs337
Target Price	Rs430
Implied Upside	27.6%
Sensex	35,388
Nifty	10,741

(Prices as on May 16, 2018)

Trading data

Market Cap. (Rs bn)	813.8
Shares o/s (m)	2,417.2
3M Avg. Daily value (Rs m)	1552.5

Major shareholders

Promoters	42.71%
Foreign	19.86%
Domestic Inst.	17.78%
Public & Other	19.65%

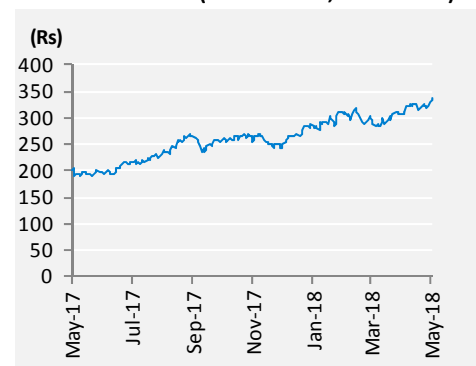
Stock Performance

(%)	1M	6M	12M
Absolute	9.0	30.1	66.9
Relative	5.8	23.2	51.2

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	32.4	18.9	71.9
2020	33.9	23.7	42.6

Price Performance (RIC: JSTL.BO, BB: JSTL IN)



Source: Bloomberg

JSW Steel (JSTL) reported Q4FY18 earnings tad above our estimates on the back of higher volume and better than expected realisations. Though EBITDA margins rose to 9-year high level of Rs11,100/t (PLe:Rs10,700), we expect the momentum to sustain for long due to structural withdrawal of Chinese supplies coupled with continuous monitoring by Chinese authorities to keep pollution under check and focus on profitability (unlike past when focus was more on production) and strong outlook on global demand. Underpinned by favorable outlook on sector and structural expansion in spreads, we upgrade the stock from **Accumulate** to **BUY** with TP of Rs430 (Earlier TP:Rs360).

■ **Strong spreads drove the earnings:** JSTL's steel realisations rose 9.4% QoQ/Rs3,870 to Rs44,925 above our estimate of Rs44,455. Volumes rose 6.8% QoQ (↑6.3% YoY) at 4,220kt (PLe:4,100kt). Total costs/t rose 7% QoQ/Rs2,290 at Rs34,730 above our estimate of Rs33,750 due to higher than expected coking coal and overhead costs. EBITDA rose 28% QoQ (↑55.7% YoY) at Rs49.3bn (PLe:Rs47.7bn), aided by higher earnings in Indian and Coated products operations. Thanks to flat interest cost and stable depreciation helped adj. PAT to grow 52% QoQ (↑130% YoY) at Rs21.9bn (PLe:20.7bn).

■ **Key highlights of Con-call: 1)** Expects demand to grow at 7-7.5% in FY19e, led by strong pick-up in demand from appliances, pipes, solar and capital goods sector **2)** Announced new capex of Rs176bn (in addition to concurrent capex of Rs268bn) to expand the crude steel capacity by 1.7mn t, 8mtpa pellet capacity, 1.5mtpa coke oven, 235MW power plant and 1.3mtpa downstream capacity **3)** Guided capex of Rs100bn/Rs150bn/Rs147bn in FY19e/FY20e/FY21e against Rs47bn in FY18 **4)** Guided 3%/2.5% growth in FY19e production/sales volumes at 16.75mn/16mn t **5)** Net debt fell by 10% QoQ to Rs380bn

Key financials (Y/e March)

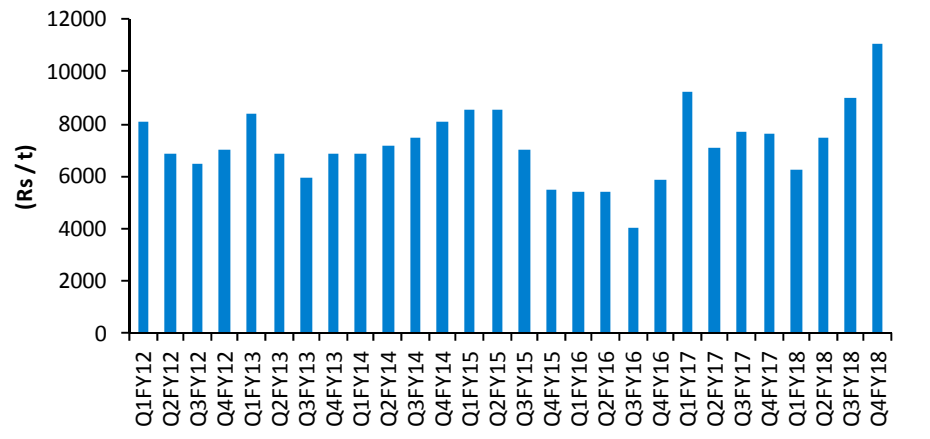
	2017	2018	2019E	2020E
Revenues (Rs m)	556,046	690,142	804,702	838,251
Growth (%)	33.8	24.1	16.6	4.2
EBITDA (Rs m)	121,742	137,634	185,173	191,642
PAT (Rs m)	35,231	46,248	77,928	81,361
EPS (Rs)	14.7	19.2	32.4	33.9
Growth (%)	233.5	31.3	68.5	4.4
Net DPS (Rs)	2.3	3.0	4.0	4.0

Profitability & Valuation

	2017	2018	2019E	2020E
EBITDA margin (%)	21.9	19.9	23.0	22.9
RoE (%)	16.9	18.6	25.4	21.6
RoCE (%)	9.5	10.5	14.2	13.1
EV / sales (x)	2.2	1.8	1.5	1.5
EV / EBITDA (x)	10.1	8.8	6.4	6.5
PE (x)	23.0	17.5	10.4	9.9
P / BV (x)	3.6	3.0	2.4	2.0
Net dividend yield (%)	0.7	0.9	1.2	1.2

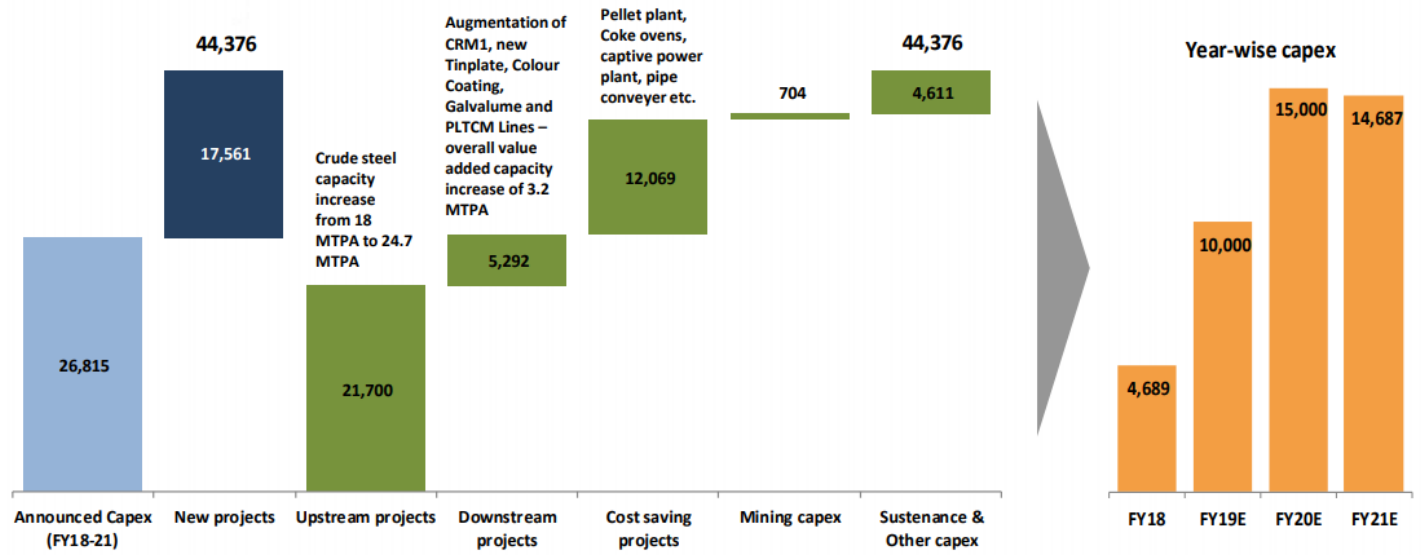
Source: Company Data; PL Research

Exhibit 1: EBITDA/t growth trajectory



Source: Company Data, PL Research

Exhibit 2: Capex guidance for FY18-FY21e including new capex of Rs175.6bn



Source: Company Data, PL Research

Exhibit 3: Q4FY18 Result Overview - Consol (Rs m)

Y/e March	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	FY18	FY17	YoY gr. (%)
Net Sales	204,550	166,560	22.8	178,610	698,330	556,044	25.6
Raw Material	108,190	93,020	16.3	100,640	389,950	281,991	38.3
<i>% of Net Sales</i>	<i>52.9</i>	<i>55.8</i>		<i>56.3</i>	<i>55.8</i>	<i>50.7</i>	
Purchase of traded goods	-	-		-	20	-	
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>		<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	
Staff Costs	4,710	4,070	15.7	4,600	18,430	17,004	8.4
<i>% of Net Sales</i>	<i>2.3</i>	<i>2.4</i>		<i>2.6</i>	<i>2.6</i>	<i>3.1</i>	
Power & Fuel	15,150	13,880	9.1	14,370	56,970	49,465	15.2
<i>% of Net Sales</i>	<i>7.4</i>	<i>8.3</i>		<i>8.0</i>	<i>8.2</i>	<i>8.9</i>	
Other Expenses	27,220	23,940	13.7	20,490	88,640	85,119	4.1
<i>% of Net Sales</i>	<i>13.3</i>	<i>14.4</i>		<i>11.5</i>	<i>12.7</i>	<i>15.3</i>	
Total Expenditure	155,270	134,910	15.1	140,100	554,010	433,580	27.8
EBITDA	49,280	31,650	55.7	38,510	144,320	122,465	17.8
<i>Margin (%)</i>	<i>24.1</i>	<i>19.0</i>		<i>21.6</i>	<i>20.7</i>	<i>22.0</i>	
Depreciation	8,650	8,780	(1.5)	8,520	33,870	35,011	(3.3)
Other income	450	560	(19.6)	420	1,670	1,519	10.0
EBIT	41,080	23,430	75.3	30,410	112,120	88,973	26.0
Interest	8,830	9,480	(6.9)	9,230	37,010	37,687	(1.8)
PBT	32,250	13,950	131.2	21,180	75,110	51,286	46.5
Extraordinary income/(expense)	3,620	-		(2,640)	980	-	
PBT (After EO)	35,870	13,950	157.1	18,540	76,090	51,286	48.4
Tax	7,150	3,990	79.2	940	15,380	16,744	(8.1)
<i>% PBT</i>	<i>19.9</i>	<i>28.6</i>		<i>5.1</i>	<i>20.2</i>	<i>32.6</i>	
Reported PAT	28,720	9,960	188.4	17,600	60,710	34,541	75.8
Minority interest	(1,170)	(60)	NA	210	(1,010)	(1,238)	NA
Share of profit/(losses) in Associates	70	120	(41.7)	140	420	126	234.7
Net Profit attributable to shareholders	29,960	10,140	195.5	17,530	62,140	35,905	73.1
Adjusted PAT	21,903	10,140	116.0	20,170	50,090	35,905	39.5

Source: Company Data, PL Research

Exhibit 4: Operating Metrics - Consol

Y/e March	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	FY18	FY17	YoY gr. (%)
Crude steel production (000 tonnes)	4,310	4,100	5.1	4,110	16,270	15,810	2.9
Sales (000 Tonnes)	4,220	3,950	6.8	3,970	15,620	14,770	5.8
Realisation per tonne	44,924	39,327	14.2	41,055	40,837	34,951	16.8
EBITDA per tonne	11,097	7,608	45.9	9,000	8,567	7,864	8.9
Total cost per tonne	34,730	32,342	7.4	32,443	32,781	27,540	19.0

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Net Revenue	556,046	690,142	804,702	838,251
Raw Material Expenses	282,627	380,924	431,337	447,062
Gross Profit	273,419	309,218	373,365	391,189
Employee Cost	16,996	15,408	16,733	18,183
Other Expenses	134,681	156,177	171,460	181,363
EBITDA	121,742	137,634	185,173	191,642
Depr. & Amortization	34,299	34,100	35,470	37,795
Net Interest	37,681	37,590	37,549	37,542
Other Income	1,521	1,767	1,966	2,193
Profit before Tax	51,284	67,711	114,120	118,498
Total Tax	16,743	16,113	36,991	38,017
Profit after Tax	34,541	51,598	77,128	80,481
Ex-Od items / Min. Int.	(427)	(5,050)	440	520
Adj. PAT	35,231	46,248	77,928	81,361
Avg. Shares O/S (m)	2,403.0	2,403.0	2,403.0	2,403.0
EPS (Rs.)	14.7	19.2	32.4	33.9

Cash Flow Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
C/F from Operations	73,659	96,280	169,143	143,113
C/F from Investing	(46,766)	(45,493)	(98,874)	(148,467)
C/F from Financing	(21,884)	(44,136)	(76,276)	20,821
Inc. / Dec. in Cash	5,010	6,651	(6,007)	15,467
Opening Cash	8,337	9,175	15,826	9,818
Closing Cash	9,175	15,826	9,818	25,285
FCFF	(50,263)	18,492	69,949	47,217
FCFE	(38,963)	18,492	39,949	117,217

Key Financial Metrics

Y/e March	2017	2018	2019E	2020E
Growth				
Revenue (%)	33.8	24.1	16.6	4.2
EBITDA (%)	90.2	13.1	34.5	3.5
PAT (%)	234.1	31.3	68.5	4.4
EPS (%)	233.5	31.3	68.5	4.4
Profitability				
EBITDA Margin (%)	21.9	19.9	23.0	22.9
PAT Margin (%)	6.3	6.7	9.7	9.7
RoCE (%)	9.5	10.5	14.2	13.1
RoE (%)	16.9	18.6	25.4	21.6
Balance Sheet				
Net Debt : Equity	1.8	1.5	1.1	1.1
Net Wrkng Cap. (days)	(70)	(66)	(82)	(72)
Valuation				
PER (x)	23.0	17.5	10.4	9.9
P / B (x)	3.6	3.0	2.4	2.0
EV / EBITDA (x)	10.1	8.8	6.4	6.5
EV / Sales (x)	2.2	1.8	1.5	1.5
Earnings Quality				
Eff. Tax Rate	32.6	23.8	32.4	32.1
Other Inc / PBT	3.0	2.6	1.7	1.9
Eff. Depr. Rate (%)	5.2	5.0	4.8	4.9
FCFE / PAT	(110.6)	40.0	51.3	144.1

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
Shareholder's Funds	226,476	271,899	341,100	410,824
Total Debt	433,340	433,340	403,340	473,340
Other Liabilities	28,278	32,443	48,874	65,820
Total Liabilities	688,095	737,682	793,314	949,985
Net Fixed Assets	627,094	639,955	705,025	817,590
Goodwill	8,717	8,717	8,717	8,717
Investments	10,670	11,190	11,810	12,510
Net Current Assets	38,066	74,272	64,214	107,620
Cash & Equivalents	17,852	24,503	18,496	33,962
Other Current Assets	212,525	261,311	301,036	328,356
Current Liabilities	192,312	211,542	255,318	254,699
Other Assets	3,548	3,548	3,548	3,548
Total Assets	688,095	737,682	793,314	949,985

Quarterly Financials (Rs m)

Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Net Revenue	146,990	168,180	178,610	204,550
EBITDA	26,170	30,360	38,510	49,280
% of revenue	17.8	18.1	21.6	24.1
Depr. & Amortization	8,190	8,510	8,520	8,650
Net Interest	9,450	9,500	9,230	8,830
Other Income	410	390	420	450
Profit before Tax	8,940	12,740	18,540	35,870
Total Tax	2,840	4,450	940	7,150
Profit after Tax	6,260	8,390	17,530	29,960
Adj. PAT	6,260	8,390	13,537	21,903

Key Operating Metrics

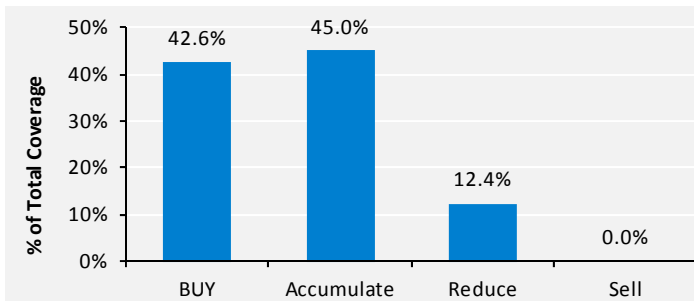
Y/e March	2017	2018	2019E	2020E
Crude Steel Prod.	15.8	16.1	16.9	17.3
Rolled Products Prod.	14.6	15.0	15.6	16.1
Sales Vol. (mt)	14.8	15.5	16.3	16.7
Realisation / tonne (Rs)	34,940	40,496	45,018	45,177
EBITDA / tonne (Rs)	7,813	8,121	10,482	10,567
Cost / tonne of iron ore (Rs)	2,850	3,300	3,300	3,300
Cost / tonne of coking coal (Rs)	10,832	13,092	15,193	15,214

Source: Company Data, PL Research.

**Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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